

## Message Text

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ACTION AF-18

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FM AMEMBASSY ADDIS ABABA

TO SECSTATE WASHDC 9346

INFO AMEMBASSY JIDDA

AMEMBASSY TEHRAN

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E.O.11652: NA

TAGS: ECON, EFIN, ET

SUBJ: ECONOMIC IMPACT OF RECENT DISTURBANCES IN ETHIOPIA

REF: A. ADDIS 6760; B. ADDIS A-129, JUNE 5, 1974

1. IN RESPONSE TO MY REQUEST FOR HIS VIEWS ON IEG INTENTIONS WITH RESPECT TO FINANCING ESTIMATED ADDITIONAL ETH\$90 MILLION OF BUDGETARY EXPENDITURES (US\$1.00 EQUALS ETH\$2.05) FOR REFINERY SUBSIDIZATION AND SALARY INCREASES, FINANCE MINISTER NEGASH STATED THAT IEG HOPED TO IMPLEMENT PROJECTED FY75 CAPITAL EXPENDITURES BY FOLLOWING MEANS:

A. OFFSET ANNUAL REFINERY SUBSIDIZATION COSTS (ESTIMATED AT ETH\$30 MILLION) BY MEANS OF GRANTS OR LOANS FROM SAUDI ARABIA AND IRAN FOR WHICH NEGOTIATIONS WERE ALREADY UNDERWAY.

B. COVER INCREASED ANNUAL SALARY AND PENSION COSTS (ESTIMATED AT ETH\$60 MILLION) BY MEANS OF INCREASED TAX REVENUE. HE SHOWED FIGURES FOR MAY INDICATING THAT COLLECTIONS WERE RUNNING CONSIDERABLY AHEAD OF LAST YEAR. DURING THAT MONTH EXCISE TAX RECEIPTS WERE UP ETH\$1.7 MILLION; COFFEE RECEIPTS HAD DOUBLED; AND INLAND REVENUE RECEIPTS WERE UP ETH\$2.9 MILLION.

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HE ATTRIBUTED THSI IMPROVED PERFORMANCE TO ELIMINATION OF

TAX ABUSES, PARTICULARLY IN PREVIOUSLY TAX-FREE SALES OF PETROLEUM PRODUCTS IN RURAL AREAS. HE CONTINUED THAT NO FOREIGN LOANS WOULD BE SOUGHT FOR OPERATING BUDGETARY EXPENDITURES AND ANY REQUIRED ADDITIONAL SAVINGS WOULD BE MADE INTERNALLY.

C. STEPPED-UP DISBURSEMENT RATES FOR AVAILABLE FOREIGN ASSISTANCE.

2. NEGASH SAID THAT ADDITIONAL REVENUE FROM NEW TAXES WAS NOT ENVISAGED IN SHORT TERM. ACTION WOULD BE UNDERTAKEN TO IMPROVE BUSINESS BOOKKEEPING TO ASSURE MORE ACCURATE COLLECTIONS UNDER EXISTING SCHEDULES. IN LONGER RUN, IEG ALSO PLANS TO INCREASE LAND TAXATION TO INSURE PRODUCTIVE USE BUT CLARIFICATION OF LAND OWNERSHIP WOULD BE REQUIRED FIRST.

3. COMMENT: 16 PERCENT IMPROVEMENT IN COLLECTIONS FROM EXCISE TAXES AND INLAND REVENUE DURING MAY WOULD, IF MAINTAINED ON ANNUAL BASIS, TOTAL ETH\$55.2 MILLION. THIS PERFORMANCE WOULD FINANCE SALARY AND PENSION INCREASES IN ABSENCE OF OFFSETTING SUBSTANTIAL DECLINE IN IMPORT AND EXPORT TAX PROCEEDS. FRAGMENTARY EVIDENCE SUGGESTS THAT IMPORTS ARE OFF BUT EXPORTS ARE HOLDING THEIR OWN (WITH COFFEE VOLUMES DOWN BUT PRICES REMAINING AT FAVORABLE LEVELS). SOME DECLINE IN TAX RECEIPTS FROM FOREIGN TRADE COULD ALSO BE COVERED BY INCREASED FINANCING. IF INTERNAL STABILITY IS MAINTAINED AND EXTRAORDINARY IMPROVEMENT IN EXCISE AND INLAND TAX REVENUES PERSISTS, EMBASSY CONCLUDES THAT IEG MAY BE ABLE TO IMPLEMENT PROJECTED FY75 CAPITAL BUDGET FULLY.  
WYMAN

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## Message Attributes

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